



News Release

For Immediate Release

Contact: Brian Reed, President and CEO, Summit State Bank (707) 568-4908

Summit State Bank Reports Net Income of \$1.8 Million for Third Quarter 2023; Declares Quarterly Cash Dividend of \$0.12 Per Common Share

SANTA ROSA, CA – (October 25, 2023) – Summit State Bank (Nasdaq: SSBI) today reported net income for the third quarter ended September 30, 2023 of \$1,821,000, or \$0.27 per diluted share, a decrease of \$2,158,000, or 54.2%, compared to net income of \$3,979,000, or \$0.59 per diluted share for the third quarter ended September 30, 2022. Financial results for the quarter reflect strong non-interest income resulting from increased gain on sale of loans. Lower net interest income resulting from an increase in interest expense on deposits offset aforementioned increase in non-interest income.

The Board of Directors declared a quarterly cash dividend of \$0.12 per share on October 24, 2023. The quarterly dividend will be paid on November 16, 2023 to shareholders of record on November 9, 2023.

"Our third quarter operating results were highlighted by strong revenue generation and stable loan growth," said Brian Reed, President and CEO. "We are encouraged that loan demand continues to hold up despite the higher rate environment and we continue to aggressively seek out core lending opportunities. Total deposits increased 19% compared to a year ago, and declined 2% during the quarter, with the growth occurring in interest bearing demand and money market accounts compared to the prior quarter end. While the net interest margin decrease was primarily related to pressure from the funding side of the balance sheet, we remain prudent with all new loan pricing. New customer relationships are fueling loan and deposit growth, and we expect that to continue as we grow the Bank organically."

Third Quarter 2023 Financial Highlights (at or for the three months ended September 30, 2023)

- Net income was \$1,821,000, or \$0.27 per diluted share, compared to \$3,979,000, or \$0.59 per diluted share, in the third quarter of 2022 and \$2,985,000, or \$0.45 per diluted share, for the quarter ended June 30, 2023.
- Reversal of net credit losses was \$5,000, compared to a provision for net credit losses of \$770,000 in the third quarter a year ago.
- Net interest margin was 2.80%, compared to 3.44% in the preceding quarter and 4.42% in the third quarter a year ago.
- Third quarter revenues (interest income plus noninterest income) increased 20.8% to \$16,427,000, compared to \$13,596,000 in the third quarter a year ago.

- Annualized return on average assets was 0.63%, compared to 1.56% in the third quarter of 2022.
- Annualized return on average equity was 7.70%, compared to 18.12% in the third quarter a year ago.
- Net loans increased \$38,619,000 to \$932,199,000 at September 30, 2023, compared to \$893,580,000 one year earlier.
- Net loans increased \$7,393,000 during the quarter to \$932,199,000 at September 30, 2023, compared to \$924,806,000 three months earlier.
- Total deposits increased 19% to \$1,030,836,000 at September 30, 2023 compared to \$868,912,000 at September 30, 2022 and decreased 2% when compared to the prior quarter end.
- The Bank's nonperforming loans to gross loans increased to 3.72% at September 30, 2023 compared to 2.65% at June 30, 2023 and 0.43% at September 30, 2022. Additionally, nonperforming assets to total assets increased to 3.09%, at September 30, 2023 compared to 2.14% at June 30, 2023 and 0.38% at September 30, 2022.
- Tangible book value was \$13.77 per share, compared to \$12.62 per share a year ago.
- Declared a quarterly cash dividend of \$0.12 per share for the three months ended September 30, 2023, June 30, 2023 and September 30, 2022.

Operating Results

For the third quarter of 2023, the annualized return on average assets was 0.63% and the annualized return on average equity was 7.70%. This compared to an annualized return on average assets of 1.56% and an annualized return on average equity of 18.12%, respectively, for the third quarter of 2022.

Summit's net interest margin was 2.80% in the third quarter of 2023, compared to 3.44% in the preceding quarter and 4.42% in the third quarter of 2022. "The unprecedented rise in funding costs that is affecting the entire banking industry impacted our net interest margin during the quarter," said Reed. "The cost of deposits in the third quarter was 2.26% as the rapid rate increases have driven customers to shift to higher yielding deposit accounts. While we anticipate deposit pricing pressures and heavy competition in our markets to continue in the near term, we continue to benefit from repricing loans at higher rates."

Interest and dividend income increased 19% to \$14,931,000 in the third quarter of 2023 compared to \$12,541,000 in the third quarter of 2022. The increase in interest income is attributable to a \$998,000 increase in loan interest yield primarily driven by increased loan volume and secondarily by increased rates, \$1,109,000 increase in interest on deposits with banks and \$283,000 increase in investment interest.

Non-interest income increased in the third quarter of 2023 to \$1,496,000 compared to \$1,055,000 in the third quarter of 2022. The Bank recognized \$1,046,000 in gains on sales of SBA and USDA guaranteed loan balances in the third quarter of 2023 compared to \$578,000 in gains on sales of SBA guaranteed loans balances in the third quarter of 2022.

Operating expenses increased in the third quarter of 2023 to \$6,926,000 compared to \$5,533,000 in the third quarter of 2022. The increase was primarily due to a \$182,000 increase in stock appreciation rights and restricted stock award expense, a \$428,000 increase in salaries and commissions net of deferred fees and costs, \$258,000 increase in employee benefit and health expenses, \$207,000 increase in legal and other professional fees, \$182,000 increase in equity award benefit accrual expenses, and a \$111,000 increase in FDIC Insurance.

Balance Sheet Review

Net loans increased 4% to \$932,199,000 at September 30, 2023 compared to \$893,580,000 at September 30, 2022 and increased 1% compared to June 30, 2023.

Total deposits increased 19% to \$1,030,836,000 at September 30, 2023 compared to \$868,912,000 at September 30, 2022 and decreased 2% when compared to the prior quarter end. Most of the deposit growth year-over-year was due to the Bank's ongoing focus on growing local deposits organically. At September 30, 2023, noninterest bearing demand deposit accounts decreased 17% compared to a year ago and represented 20% of total deposits; savings, NOW and money market accounts increased 23% compared to a year ago and represented 44% of total deposits, and CDs increased 49% compared to a year ago and comprised 36% of total deposits. The average cost of deposits was 2.63% in the third quarter of 2023, compared to 0.52% in the third quarter of 2022, and 2.26% in the second quarter of 2023.

Shareholders' equity was \$93,439,000 at September 30, 2023, compared to \$94,435,000 three months earlier and \$84,421,000 a year earlier. The increase in shareholders' equity compared to a year ago was primarily due to an increase of \$10,226,000 in retained earnings offset by the \$1,452,000 increase in accumulated other comprehensive loss; this change was related to an increase in the unrealized loss on available for sale securities reflecting the increase in market interest rates during the year. At September 30, 2023, tangible book value was \$13.77 per share, compared to \$13.92 three months earlier, and \$12.62 at September 30, 2022.

Summit State Bank continues to maintain capital levels in excess of the requirements to be categorized as "well-capitalized" with tangible equity to tangible assets of 8.24% at September 30, 2023, compared to 8.15% at June 30, 2023, and 8.59% at September 30, 2022. The decrease compared to September 2022 is due to the Bank's assets outgrowing the retention of capital to build liquidity.

Credit Quality

Nonperforming assets were \$35,267,000, or 3.09% of total assets, at September 30, 2023, and consisted of thirteen loans; two loans totaling \$5,670,000 are real estate secured construction and land loans and eleven loans totaling \$29,597,000 are commercial and agriculture secured loans. There were \$21,941,000 of nonperforming assets that were individually assessed resulting in a corresponding reserve of \$135,000. There were \$3,947,000 in nonperforming assets at September 30, 2022.

Due to minimal projected change in expected losses, the Bank recorded a \$5,000 reversal of net credit loss expense in the third quarter of 2023. This compared to \$770,000 provision for net credit loss expense in the third quarter of 2022. The allowance for credit losses to total loans was 1.61% on September 30, 2023 and 1.57% on September 30, 2022.

“During challenging economic times, we remain focused on full customer relationships and new client outreach,” said Reed. “Our history of success as a community bank is rooted in the mission of providing exceptional service to our customers and meeting all of their financial needs.”

About Summit State Bank

Founded in 1982 and headquartered in Sonoma County, Summit State Bank (Nasdaq: SSBI), is an award-winning community bank servicing the North Bay. The Bank serves small businesses, nonprofits, and the community, with total assets of \$1,142 million and total equity of \$93 million at September 30, 2023. The Bank has built its reputation over the past 40 years by specializing in providing exceptional customer service and customized financial solutions to aid in the success of its customers.

Summit State Bank is dedicated to investing in and celebrating the diverse backgrounds, cultures and talents of its employees to create high performance and support the evolving needs of its customers and community it serves. The Bank has been consistently recognized for its achievements and has been awarded Best Places to Work in the North Bay, Top Community Bank Loan Producer, Raymond James Bankers Cup, Super Premier Performing Bank, the Piper Sandler SM-ALL Star Award, the Independent Community Bankers of America’s Best-Performing Community Banks, and the San Francisco Business Times’ 2023 Bay Area Corporate Philanthropists. For more information, visit www.summitstatebank.com.

Forward-looking Statements

The financial results in this release are preliminary. Final financial results and other disclosures will be reported in Summit State Bank’s quarterly report on Form 10-Q for the period ended September 30, 2023 and may differ materially from the results and disclosures in this release due to, among other things, the completion of final review procedures, the occurrence of subsequent events or the discovery of additional information.

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank’s control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management’s view only as of the date hereof. The Bank

undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		
	September 30, 2023 (Unaudited)	June 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Interest and dividend income:			
Interest and fees on loans	\$ 12,831	\$ 13,381	\$ 11,833
Interest on deposits with banks	1,263	1,449	154
Interest on investment securities	708	715	485
Dividends on FHLB stock	129	80	69
Total interest and dividend income	<u>14,931</u>	<u>15,625</u>	<u>12,541</u>
Interest expense:			
Deposits	6,895	5,819	1,100
Federal Home Loan Bank advances	10	48	355
Junior subordinated debt	94	94	94
Total interest expense	<u>6,999</u>	<u>5,961</u>	<u>1,549</u>
Net interest income before provision for credit losses	7,932	9,664	10,992
Reversal of (provision for) credit losses on loans	(27)	-	753
Reversal of (provision for) credit losses on unfunded loan commitments	(5)	35	17
Provision for credit losses on investments	27	-	-
Net interest income after provision for (reversal of) credit losses on loans, unfunded loan commitments and investments	<u>7,937</u>	<u>9,629</u>	<u>10,222</u>
Non-interest income:			
Service charges on deposit accounts	231	215	219
Rental income	61	39	38
Net gain on loan sales	1,046	-	578
Other income	158	1,195	219
Total non-interest income	<u>1,496</u>	<u>1,449</u>	<u>1,055</u>
Non-interest expense:			
Salaries and employee benefits	4,362	4,199	3,449
Occupancy and equipment	432	442	405
Other expenses	2,132	2,181	1,679
Total non-interest expense	<u>6,926</u>	<u>6,822</u>	<u>5,533</u>
Income before provision for income taxes	2,507	4,256	5,744
Provision for income taxes	686	1,271	1,765
Net income	<u>\$ 1,821</u>	<u>\$ 2,985</u>	<u>\$ 3,979</u>
Basic earnings per common share	\$ 0.27	\$ 0.45	\$ 0.59
Diluted earnings per common share	\$ 0.27	\$ 0.45	\$ 0.59
Basic weighted average shares of common stock outstanding	6,697	6,697	6,688
Diluted weighted average shares of common stock outstanding	6,705	6,700	6,688

SUMMIT STATE BANK
STATEMENTS OF INCOME

(In thousands except earnings per share data)

	Nine Months Ended	
	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Interest and dividend income:		
Interest and fees on loans	\$ 39,152	\$ 33,025
Interest on deposits with banks	3,618	227
Interest on investment securities	2,143	1,312
Dividends on FHLB stock	293	203
Total interest and dividend income	45,206	34,767
Interest expense:		
Deposits	17,114	2,560
Federal Home Loan Bank advances	177	749
Junior Subordinated Debt	281	281
Total interest expense	17,572	3,590
Net interest income before provision for credit losses	27,634	31,177
Provision for credit losses on loans	373	1,876
Reversal of (provision for) credit losses on unfunded loan commitments	(3)	3
Provision for credit losses on investments	27	-
Net interest income after provision for (reversal of) credit losses on loans, unfunded loan commitments and investments	27,237	29,298
Non-interest income:		
Service charges on deposit accounts	653	640
Rental income	139	162
Net gain on loan sales	2,481	4,077
Net gain on securities	-	7
Other income	1,630	477
Total non-interest income	4,903	5,363
Non-interest expense:		
Salaries and employee benefits	12,354	10,724
Occupancy and equipment	1,326	1,230
Other expenses	5,886	5,163
Total non-interest expense	19,566	17,117
Income before provision for income taxes	12,574	17,544
Provision for income taxes	3,652	5,129
Net income	\$ 8,922	\$ 12,415
Basic earnings per common share	\$ 1.33	\$ 1.86
Diluted earnings per common share	\$ 1.33	\$ 1.86
Basic weighted average shares of common stock outstanding	6,694	6,687
Diluted weighted average shares of common stock outstanding	6,697	6,687

SUMMIT STATE BANK
BALANCE SHEETS
(In thousands except share data)

	<u>September 30, 2023</u> (Unaudited)	<u>June 30, 2023</u> (Unaudited)	<u>September 30, 2022</u> (Unaudited)
ASSETS			
Cash and due from banks	\$ 86,604	\$ 112,412	\$ 42,818
Total cash and cash equivalents	<u>86,604</u>	<u>112,412</u>	<u>42,818</u>
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$97,099, \$97,386 and \$83,417)	80,312	83,593	68,694
Loans, less allowance for credit losses of \$15,271, \$15,261 and \$14,209	932,199	924,806	893,580
Bank premises and equipment, net	5,334	5,426	5,509
Investment in Federal Home Loan Bank stock (FHLB), at cost	5,541	5,541	4,737
Goodwill	4,119	4,119	4,119
Affordable housing tax credit investments	8,360	8,586	8,964
Accrued interest receivable and other assets	<u>19,705</u>	<u>16,926</u>	<u>15,391</u>
Total assets	<u>\$ 1,142,174</u>	<u>\$ 1,161,409</u>	<u>\$ 1,043,812</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 210,258	\$ 212,489	\$ 254,135
Demand - interest-bearing	201,516	194,596	147,349
Savings	54,317	57,003	68,880
Money market	193,080	176,616	149,409
Time deposits that meet or exceed the FDIC insurance limit	145,672	175,810	102,660
Other time deposits	<u>225,993</u>	<u>231,802</u>	<u>146,479</u>
Total deposits	1,030,836	1,048,316	868,912
Federal Home Loan Bank advances	-	-	73,700
Junior subordinated debt	5,916	5,913	5,902
Affordable housing commitment	4,435	4,435	4,752
Accrued interest payable and other liabilities	<u>7,548</u>	<u>8,310</u>	<u>6,125</u>
Total liabilities	<u>1,048,735</u>	<u>1,066,974</u>	<u>959,391</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,784,099, 6,784,099 and 6,687,959	37,389	37,301	37,145
Retained earnings	67,867	66,844	57,641
Accumulated other comprehensive loss, net	<u>(11,817)</u>	<u>(9,710)</u>	<u>(10,365)</u>
Total shareholders' equity	<u>93,439</u>	<u>94,435</u>	<u>84,421</u>
Total liabilities and shareholders' equity	<u>\$ 1,142,174</u>	<u>\$ 1,161,409</u>	<u>\$ 1,043,812</u>

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:			
Net interest income	\$ 7,932	\$ 9,664	\$ 10,992
Reversal of (provision for) credit losses on loans	(27)	-	753
Reversal of (provision for) credit losses on unfunded loan commitments	(5)	35	17
Provision for credit losses on investments	27	-	-
Non-interest income	1,496	1,449	1,055
Non-interest expense	6,926	6,822	5,533
Provision for income taxes	686	1,271	1,765
Net income	\$ 1,821	\$ 2,985	\$ 3,979
Selected per Common Share Data:			
Basic earnings per common share	\$ 0.27	\$ 0.45	\$ 0.59
Diluted earnings per common share	\$ 0.27	\$ 0.45	\$ 0.59
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.12
Book value per common share (1)	\$ 13.77	\$ 13.92	\$ 12.62
Selected Balance Sheet Data:			
Assets	\$ 1,142,174	\$ 1,161,409	\$ 1,043,812
Loans, net	932,199	924,806	893,580
Deposits	1,030,836	1,048,316	868,912
Average assets	1,155,007	1,157,193	1,014,891
Average earning assets	1,123,951	1,125,327	986,780
Average shareholders' equity	95,180	94,340	87,142
Nonperforming loans	35,267	24,908	3,947
Total nonperforming assets	35,267	24,908	3,947
Selected Ratios:			
Return on average assets (2)	0.63%	1.03%	1.56%
Return on average common shareholders' equity (2)	7.59%	12.69%	18.12%
Efficiency ratio (3)	73.46%	61.39%	45.93%
Net interest margin (2)	2.80%	3.44%	4.42%
Common equity tier 1 capital ratio	9.65%	9.40%	9.64%
Tier 1 capital ratio	9.65%	9.40%	9.64%
Total capital ratio	11.49%	11.23%	11.55%
Tier 1 leverage ratio	8.47%	8.36%	8.71%
Common dividend payout ratio (4)	43.82%	27.40%	20.31%
Average shareholders' equity to average assets	8.24%	8.15%	8.59%
Nonperforming loans to total loans	3.72%	2.65%	0.43%
Nonperforming assets to total assets	3.09%	2.14%	0.38%
Allowance for credit losses to total loans	1.61%	1.62%	1.57%
Allowance for credit losses to nonperforming loans	43.30%	61.27%	359.97%

(1) Total shareholders' equity divided by total common shares outstanding.

(2) Annualized.

(3) Non-interest expenses to net interest and non-interest income, net of securities gains.

(4) Common dividends divided by net income available for common shareholders.

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Nine Months Ended	
	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Statement of Income Data:		
Net interest income	\$ 27,634	\$ 31,177
Provision for credit losses on loans	373	1,876
Reversal of (provision for) credit losses on unfunded loan commitments	(3)	3
Provision for credit losses on investments	27	-
Non-interest income	4,903	5,363
Non-interest expense	19,566	17,117
Provision for income taxes	3,652	5,129
Net income	\$ 8,922	\$ 12,415
Selected per Common Share Data:		
Basic earnings per common share	\$ 1.33	\$ 1.86
Diluted earnings per common share	\$ 1.33	\$ 1.86
Dividend per share	\$ 0.36	\$ 0.36
Book value per common share (1)	\$ 13.77	\$ 12.62
Selected Balance Sheet Data:		
Assets	\$ 1,142,174	\$ 1,043,812
Loans, net	932,199	893,580
Deposits	1,030,836	868,912
Average assets	1,149,441	983,343
Average earning assets	1,117,877	957,280
Average shareholders' equity	93,461	85,824
Nonperforming loans	35,267	3,947
Total nonperforming assets	35,267	3,947
Selected Ratios:		
Return on average assets (2)	1.04%	1.69%
Return on average common shareholders' equity (2)	12.76%	19.34%
Efficiency ratio (3)	60.13%	46.85%
Net interest margin (2)	3.31%	4.35%
Common equity tier 1 capital ratio	9.65%	9.64%
Tier 1 capital ratio	9.65%	9.64%
Total capital ratio	11.49%	11.55%
Tier 1 leverage ratio	8.47%	8.71%
Common dividend payout ratio (4)	27.36%	19.48%
Average shareholders' equity to average assets	8.13%	8.73%
Nonperforming loans to total loans	3.72%	0.43%
Nonperforming assets to total assets	3.09%	0.38%
Allowance for credit losses to total loans	1.61%	1.57%
Allowance for credit losses to nonperforming loans	43.30%	359.97%

(1) Total shareholders' equity divided by total common shares outstanding.

(2) Annualized.

(3) Non-interest expenses to net interest and non-interest income, net of securities gains.

(4) Common dividends divided by net income available for common shareholders.